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Montana Democratic Party

Common Sense Issues, Inc.

RECEIVED -FEDERAL ELECTION

FEDERAL ELECTION COMMISSION **999** E Street, N.W. Washington; D.C. 20463 FIRST GENERAL COUNSEL'S REPORT

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MUR: 6430

Steven Daines

2 U.S.C. § 431(2)

2 U.S.C. § 431(8)

2 U.S.C. § 431(9) 2 U.S.C. § 432(e)

2 U.S.C. § 434(c)

2 U.S.C. § 434(f)

2 U.S.C. § 441i(e)

11 C.F.R. § 100.22 11 C.F.R. § 100.72

11 C.F.R. § 100.131

11 C.F.R. § 109.21

Disclosure Reports

Internal Revenue Service

2 U.S.C. § 441b

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COMPLAINANT:

RESPONDENTS:

AND REGULATIONS:

RELEVANT STATUTES

28 29 30

INTERNAL REPORTS CHECKED:

FEDERAL AGENCIES CHECKED:

INTRODUCTION

This matter includes allegations that a radio advertisement sponsored by a nonprofit corporation called Common Sense Issues, Inc. ("CSI") in late 2009 through February 2010 was coordinated with Steven Daines, who at that point was alleged to be an undeclared federal candidate. The complaint alleges that CSI's advertisement, which featured Daines as a

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- spokesman criticizing the health care reform positions taken by Montana's U.S. Senators,
- 2 constitutes federal campaign activity on behalf of Daines that was paid for with "soft money" in
- 3 violation of 2 U.S.C. § 441i(e). The complaint also alleges that the advertisement would have
- 4 triggered the requirement for Daines to file a Statement of Candidacy with the Commission and
- to begin reporting receipts and disbursements for his undeclared candidacy. See 2 U.S.C.
- 6 §§ 431(2) and 432(e). In separate responses, both CSI and Daires deny that they violated the
- 7 Federal Election Campaign Act of 1971, as amunded (the "Act"). As explorined in more detail
- 8 below, the advertisement does not appear to have been a conclinated communication and Daines
- 9 does not appear to have become a candidate at the time the advertisement was aired. We
- therefore recommend that the Commission find no reason to believe that (1) Common Sense
- 11 Issues, Inc. violated 2 U.S.C. § 441b by making a prohibited in-kind contribution or violated
- 12 2 U.S.C. §§ 434(c) and 434(f) by failing to file independent expenditure and electioneering
- communication reports, and (2) Steven Daines violated 2 U.S.C. §§ 431(2) and 432(e) by failing
- to timely file a Statement of Candidacy, violated 2 U.S.C. § 441b(a) by receiving an in-kind
- corporate contribution, or violated 2 U.S.C. § 441i(e), the "soft money" provision of the Act.

II. FACTUAL AND LEGAL ANALYSIS

A. BACKGROUND

Common Senne Issues, Inc. is a Cinginanti, Ohio based social welfare organization established under section 501(c)(4) of the Internal Revenue Code. See Common Sense Issues website, "About Us", http://commonsenseissues.com (last visited May 4, 2011). According to its website, CSI desires "to advance awareness, involvement, and citizen action" on a number of issues including life (defending the whole life from conception to natural death), liberty (protecting individual and corporate rights), natural family (defending the value and practicality

of traditional marriage), economic freedom (taxation, spending, and limited government), etc.

- Id. On its website, CSI lists Colorado, Montana, South Dakota, and North Dakota as "priority 1 states." See Common Sense Issues website, available at http://commonsenseissues.com (last 2 visited May 4, 2011). The CSI website links to its state-affiliated websites, including one known 3 as Common Sense Montana. See id., linking to www.commonsensemontana.com. 5 During the 2008 election, CSI reported making both independent expenditures and electioneering communications and indicated that it was reporting these activities as a qualified 6 nonprofit comporation ("ONC"). For 2010, CSI reported making independent expanditures in the 7 amount of approximately \$130,000 for paces in the 4th Congressional District of Kacsas and for 8 9 the U.S. Senate races of Alaska and Utah. See Common Sense Issues, Inc. (C90009739) Forms 5, available at http://query.nictusa.com/cgi-bin/fecimg/?C90009739 (last visited May 4, 2011). 10 CSI also made approximately \$30,000 in electioneering communications for races in the South 11 Dakota District for the House of Representatives in 2010. See Common Sense Issues, Inc. 12 (C30001457) Forms 9, available at http://query.nictusa.com/cgi-bin/fecimg/?C30001457 (last 13 visited May 4, 2011). CSI did not report any independent expenditures or electioneering 14 communications for federal races in Montana. 15 Steven Daines, who was the 2008 Republican nominee for Lieutenant Governor in
- Montana priver declared his candidacy for any federal office on the ballot in 2009 or 2010. 17 Mr. Daines, however, is currently a candidate for the House of Representatives from Montana 18 for the 2012 election. See Steven Daines' Statement of Candidacy, Amended February 9. 2011. 19 Before becoming a candidate for the House of Representatives, Daines was briefly a 2012 20 candidate for the U.S. Senate from Montana. See Daines' Response at 1; Steven Daines' 21 Statement of Candidacy, Filed November 12, 2010. Daines has been actively engaged in public 22 life in Montana since 2007, and became a recognized leader of "the fight to return Montana's 23

- surplus funds to the taxpayers" through www.GiveItBack.com, as well as speaking at local tea
- 2 party rallies and GOP events. See id.
- 3 Starting in late 2009 and ending in February 2010, Daines was featured in a radio
- advertisement run by CSI in Montana. See CSI Response at 1; Daines' Reponse at 3. The
- 5 advertisement, entitled "Montana sends an Ear Doctor" ("Ear Doctor"), can be heard at
- 6 http://www.youtube.cum/watch?v=JZIxhLKIHvk. The ad criticizes Mornana's current U.S.
- 7 Senutors, Jon Tester and Max Barrous, for supporting federal health care legislation passed in
- 8 2009. Sonators Tester and Basses are eligible to run for reelection in 2012 and 2014,
- 9 respectively. At the time the ad was run, there were ongoing public discussions about possible
- revisions to, or even the possible repeal of, the health care reform legislation.

"MONTANA SENDS AN EAR DOCTOR"

<u>Voice</u>	Statements
Male voice:	Is this where I can find Montana Sensitors?
Female voice:	Max Baucus and Jon Tester, yes sir, this is the U.S. Capitol.
Male vorce:	I'm an ear docur for Montana; I need to give them a hearing test.
Female Voice:	But sir, they have doctor.
Male vaice:	Tax payers back home sent min.
Female Voice:	Oh?
Male voice:	It's about health care, our senators don't hear us anymore.
Female Voice:	Why do you have that mega phone?
Male voice:	It's what we call a hearing aid.
Daines:	I'm Steve Daines, a fifth-generation Montanan, and like you, I'm disappointed with just how out of touch Max Bankon and Jon Testar are with Montana's taxpayers. They've turned a deaf ear to us on health care, creating a bill forcing every one of us to buy insurance or face fines, and also forcing us to fund abortion on demand. That's just wrong, and we need to let them know it.
Femala Voice:	Shhhin, they've just gone into another searet menoing.
Male voice:	Oh, so they cun hear?
Female Voice:	Yes sir, they're just ignoring you.
Announcer:	Go to CommonSenseMontana.com today and tell your senators to listen to you and vote no on Obamacare. That's "w-w-w-dot-CommonSenseMontana-dot-com." Paid for by Common Sense Issues.

In addition to appearing in this radio advertisement for Common Sense Issues, Daines

"was an active spokesperson with and on behalf of several groups in opposition to Obamacare

during 2009 and 2010." Daines' Response, Exhibit 3, Affidavit of Steve Daines,	[14.	Ir
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- 2 particular, Daines worked with Common Sense Montana and Americans for Prosperity, "with
- whom [he] participated in events in the summer of 2009 during their 'Hands off My Healthcare'
- 4 tour." Id. Additionally, Daines was a keynote speaker at rallies sponsored by these
- organizations and has been a speaker at tea party events in Montana during 2010. Id.

B. LEGAL ANALYSIS

The issue in this menture is whether the CSI advertisement attacking Senators Baucus' and Tester's position on health care reform was a coordinated communication benefitting Steven Daines' subsequent federal candidacy. Although the complaint asserts that Daines "produced and aired" the advertisement, that "he [Daines] is using soft money," and that "Daines has spent soft money," see Complaint 1-3, the available information indicates that it was CSI, and not Daines, who produced, aired, and paid for the advertisement. While Daines served as CSI's spokesperson in the ad, there is no evidence that Daines was an officer of CSI, or that he established, financed, or controlled CSI. Accordingly, we analyze the advertisement as having been sponsored and paid for by CSI in examining (1) whether CSI violated the Act by airing the "Ear Doctor" advertisement and (2) whether Steven Daines' role in the advertisement triggered certain obligations as a caudidate under the Aut.

1. Concrete Sense issues, Inc.

a. Prohibicol Corporate Contribution

Under the Act, a corporation is prohibited from making any contribution in connection with a Federal election, and candidates and political committees are prohibited from knowingly

- accepting corporate contributions. 2 U.S.C. § 441b. The Act's prohibition on corporate
- 2 contributions extends to the payment for a coordinated communication, which would constitute
- 3 an in-kind contribution to the candidate or his or her authorized committee with whom it was
- 4 coordinated. See 11 C.F.R. § 109.21(b)(1). Although corporations may make independent
- 5 expenditures and electioneering communications, see Citizens United v. FEC. 130 S. Ct. 876,
- 6 913 (2010), they must comply with the Act's reporting requirements. See 2 U.S.C. §§ 434(c)
- 7 and 434(f). During the 2010 election cycle, individuals were prahibited from contributing over
- 8 \$2,490 per election to a condidate's withorized political committee and authorized committees
- 9 were prohibited from accepting contributions from individuals in excess of \$2,400. 2 U.S.C.
- 10 §§ 441a(a) and 441a(f). CSI did not violate section 441b(a)'s prohibition on corporate
- contributions because the "Ear Doctor" advertisement was not a coordinated communication or
- 12 other type of in-kind contribution.
- An expenditure made by any person "in cooperation, consultation, or concert, with, or at
- the request or suggestion of, a candidate, his authorized political committees or their agents"
- constitutes an in-kind contribution. 2 U.S.C. § 441a(a)(7)(B)(i). A communication is
- 16 coordinated with a candidate, a candidate's authorized committee, or agent of the candidate or
- 17 committee when the communication maisfies the three-present test set forth in 1 i C.F.R.
- 18 § 109.21(a): (1) the communication is paid for by a person wher than that candidate or

¹ Recently, a federal district court concluded that 2 U.S.C. § 441b(a)'s prohibition on corporate contributions was unconstitutional as applied to the facts of that case. See U.S. v. Danielczyk, No. 1:11cr85 at 15 (E.D. Va. June 7, 2011). However, the reasoning adopted by that district court has recently been rejected by the Ninth Circuit Court of Appeals. See Thalheimer v. San Diego, No. 10-55322 at 30-35 (9th Cir. June 9, 2011). See also, Green Party of Conn. v. Garfield, 616 F.3d 189, 199 (2d Cir. 2010); Minnesota Citizens Concerned for Life, Inc. v. Swanson, ____ F.3d __, 2011 WL 1833236 at 6 (5th Cir. May 16, 2011).

² The Chemissium researtly revises the content standard in 11 C.F.R. § 109.21(c) in response to the D.C. Circuit's decision in Shape v. FEC, 528 F.3d \$14 (D.C. Cir. 2098). The Commission added a new standard to the dentent prong of the coordinated communications rule. 11 C.F.R. § 109.21(c)(5) covers communications that are the functional equivalent of express advocacy. See Explanation and Justification for Coordinated Communications, 75 Fed. Reg. 55947 (Sept. 15, 2010). The effective date of the new content standard is December 1, 2010, after the events at issue in this matter. The new standard would not change the analysis in this Report.

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- 2 forth in 11 C.F.R. § 109.21(c); and (3) the communication satisfies at least one of the conduct
- 3 standards set forth in 11 C.F.R. § 109.21(d).
- The advertisement appears to meet the payment and conduct prongs of the definition of a
- 5 coordinated communication. See 11 C.F.R. § 109.21(a)(1) and (3). "Ear Doctor" appears to
- 6 meet the payment prong because it was paid for by CSI, which is "a person other than Ithe]
- 7 canazitate, authorized committee, or political party committee." See 11 C.F.R. § 109.21(a)(1).
- 8 In addition, the advertisement also appears to satisfy the conduct prong of the coordinated
- 9 communication definition because Daines appeared in the advertisement himself. By appearing
- in the radio advertisement himself, Daines would have triggered the "material involvement"
- standard of the conduct prong. See Advisory Opinion 2003-25 (Weinzapfel) (the Commission
- 12 noted that given the importance and potential campaign implications of such appearances, it is
- implausible that a federal candidate would appear in a public communication without being
- materially involved in one or more of the listed decisions regarding the communication).
- 15 See also 11 C.F.R. § 109.21(d)(2).
- Nonetheless, CSI's "Ear Doctor" advertisement was not a coordinated communication
- 17 because it does not meet the content prong of the regulation. See 11 C.F.R. § 109.21(c). The
- 18 content prong can be satisfied by any one of the following types of content:
 - A communication that constitutes an electioneering communication pursuant to 11 C.F.R. § 100.29. 11 C.F.R. § 109.21(c)(1).
 - A public communication³ that disseminates, distributes, or republishes, in whole or in part, campaign materials prepared by a candidate or the candidate's authorized committee. 11 C.F.R. § 109.21(c)(2).

³ A "public communication," is defined as "a communication by means of any broadcast, cable, or satellite communication, newspaper, magazine, outdoor advertising facility, mass mailing, or telephone bank to the general public, or any other form of general political advertising." 11 C.F.R. § 100.26.

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- A public communication that expressly advocates, as defined by 11 C.F.R.
 § 100.22, the election er defeat of a clearly identified federal candidate. 11 C.F.R.
 § 109.21(c)(3).
- A public communication that satisfies paragraph (c)(4)(i), (ii), (iii), or (iv) of this section pertaining to references to Presidential, Vice-Presidential, House, Squate, or political parties. 11 C.F.R. § 109.21(c)(4).

First, the "Ear Doctor" advertisement does not appear to meet the first standard established by the content prome because it is not an election erior communication. See 11 C.F.R. § 109.21(c)(1). The next election in which either of Montour's sensiors would appear on the ballot is in November 2012, more than two years from the time the radio edvertisement was apparently last aired. Thus, the advertisement would not be considered an election erring communication because it was aired more than two years before any federal election any of the mentioned potential candidates, including Daines, well in advance of any applicable time period for electioneering communications. See 2 U.S.C. § 434(f)(3); 11 C.F.R. 100.29(a)(2) (defining electioneering communications as public communications aired within 30 days of a primary election or 60 days of a general election). For similar reasons, the "Ear Doctor" advertisement also does not meet the other time-based standard of the content prong that applies to communications referencing a House or Senate candidate within 90 days of an election because the asiacusiscement was sired more than two years before any rulework election. See 11 C.F.R. § 109.21(c)(4)(i). Additionally, there is no information suggesting that CSI used the "Ear Doctor" advertisement to disseminate, distribute, or republish campaign material under 11 C.F.R. § 109.21(c)(2).

Finally, the "Ear Doctor" advertisement does not appear to meet the content standard for a coordinated communication because it does not contain express advocacy. See 11 C.F.R. § 109.21(c)(3). The "Ear Doctor" advertisement does not contain express advocacy because it

⁴ We note that at the time "Ear Doctor" was aired, Daines was not a candidate for federal office and therefore could not be considered a "clearly identified candidate." See infra Part II.B.2.

- does not include specific words or phrases of express advocacy pursuant to 11 C.F.R.
- 2 § 100.22(a). The advertisement also cannot be considered express advocacy under 11 C.F.R.
- § 100.22(b) because it could not only be interpreted by a reasonable person as containing
- 4 advocacy for the election or defeat of a clearly identified federal candidate. The "Ear Doctor"
- 5 advertisement appears to be an issue advertisement focused on health care reform, and not an
- 6 advertisement containing express advocacy, because it does not contain an unambiguous
- 7 electoral portion. See 11 C.F.R. § 100.22(b). Despite commuting Daines' views on health our
- 8 reform with those held by the Senators from Montana, the advertisement is not express advocacy
- 9 under 11 C.F.R. § 100.22(b) because it focuses on the apparent divergence of opinion between
- Montana's citizens and their senators and it also does not use Daines' position on health care
- reform to comment on his character, qualifications, or accomplishments. See Express Advocacy;
- 12 Independent Expenditures; Corporate and Labor Organization Expenditures: Explanation and
- 13 Justification, 60 Fed. Reg. 35292, 35295 (July 6, 1995).
- Accordingly, we recommend that the Commission find no reason to believe that
- 15 Common Sense Issues, Inc. or Steven Daines violated 2 U.S.C. § 441b by making or accepting
- 16 an in-kind contribution.

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b. Reporting Requirements

18 In addition to allegations of a prohibited in-kind contribution resulting from a coordinated

communication, the complaint also alleges that CSFs use of "soft money" to air this

20 advertisement may also be a violation of the Act. See Complaint at 2. To the extent that the

- 21 complaint appears to suggest that CSI was prohibited by the Act from airing "Ear Doctor"
- 22 because of CSI's status as a corporation, that issue was squarely rejected by Citizens United
- 23 v. FEC. 130 S. Ct. at 913. Additionally, because the "Ear Doctor" advertisement was not

⁵ We note that the "Ear Doctor" advertisement does not even appear to be the type of advertisement that would have been covered by the Act prior to Citizens United.

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- express advocacy, see Part II.B.1.a., supra, CSI was not required to report the costs associated
- 2 with "Ear Doctor" to the Commission as an independent expenditure pursuant to 2 U.S.C.
- 3 § 434(c). CSI also had no obligation to report the costs associated with "Ear Doctor" as an
- electioneering communication pursuant to 2 U.S.C. § 434(f) because the advertisement was not
- an election of a superior of the reasons set forth in Part II.B.1.a. supera.

Accordingly, we recommend that the Commission find no reason to believe that

Common Serine Issues, Inc. violated 2 U.S.C. §§ 434(c) and 434(f).

2. Steven Painer

The complaint alleges that once Steven Daines appeared in the "Ear Doctor" advertisement he was "no longer eligible for the 'testing the waters' exemption" and that he should have filed his Statement of Candidacy. Complaint at 2. The complaint also alleges that Daines used "soft money to promote his campaign" in violation of 2 U.S.C. § 441i(e). Daines appearance in the "Ear Doctor" advertisement, however, appears to relate solely to the issue of federal health care reform and therefore did not trigger the candidate registration or "soft money" provisions of the Act.

a. "Testing the waters" and candidate status

Under the Act, an individual becomes a candidate for federal office when the individual has received or made contributions or expenditures in success of \$5,000, 2 U.S.C. § 431(2), and then has fifteen days to file a Statement of Candidacy with the Commission, 2 U.S.C. § 432(e)(l). An individual who has not yet decided to run as a federal candidate may "test the waters" prior to declaring candidacy. 11 C.F.R. §§ 100.72 and 100.131. While testing the waters, the individual need not file reports with the Commission disclosing money received and spent, although all such activity is subject to the Act's limits and prohibitions.

Id. If the individual becomes a candidate, all such financial activity must be reported. Id.

There is no information suggesting that Steven Daines became a federal candidate under 1 2 the Act before November 12, 2010, the same day that he filed his Statement of Candidacy (FEC 3 Form 2). Despite the allegations in the complaint, there is no basis for concluding that Daines' appearance in the "Ear Doctor" radio advertisement caused him to become a candidate. "Ear Doctor was not an expenditure that triggered Daines' status as a candidate because the 5 advertisement does not contain express advocacy and thus was not an "expenditure." See 6 2 U.S.C. § 431(8); 11 C.F.R. § 100.22; see viso Part H.B.1.a., supra. "Ear Doctor" was also not 7 8 a contribution that triggesed Daines' status as a candidate; it cannot be considered a "contribution" by virtue of being a coordinated communication pursuant to 11 C.F.R. § 109.21, 9 because the content prong was not met. See 2 U.S.C. § 431(9); see also Part II.B.1.a., supra. 10 Daines' appearance in "Ear Doctor" also does not qualify as "testing the waters" activity 11 12 under Commission regulations. See 11 C.F.R. §§ 100.72 and 100.31. Although the complaint alleges that the advertisement could be considered "general public political advertising to 13 publicize his or her intention to campaign for Federal office" as a type of "testing the waters" 14 activity, the advertisement does not indicate Daines' "intention to campaign for Federal office." 15 See 11 C.F.R. §§ 100.72 and 100.31. Except for the "Ear Doctor" advertisement, the complaint 16 17 does not identify any other conclust by Daines that is elleged to be "testing the waters" activities. Moreover, tite "Ear Doctor" advertisement last aired approximately nine months 18 before Daines declared his candidacy for any federal office. See CSI Response at 1; Daines' 19 Response at 3. 20 In past matters, the Commission has concluded that a comparison between a potential 21 22 candidate and the incumbent could trigger candidate status, but in those matters such a comparison was accompanied by specific references to an actual election or race. See MUR. 23

⁶ The Response has also specifically denied that Daines engaged in any "tasting the waters" activities or received any funds for the purposes of "testing the waters." Daines' Response at 1.

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- 1 5693 (Arohnson) (specific reference to "[d]efeating an incumbent," "win[ning] the race," and
- 2 representing the specific congressional district in Washington, D.C.); see also MUR 5251
- 3 (Friends of Joe Rogers) (specific reference to candidate "immediately work[ing] for the benefit
- 4 of Colorado" and "looking forward to serving you in the next United States Congress"). In this
- 5 matter, however, the "Ear Doctor" advertisement did not even indirectly refer to an election or
- 6 the possible cardidacy of Daines.

violated 2 U.S.C §§ 431(2) and 432(e).

Finally, Daines' disclosure reports filed with the Commission indicate that Daines did not receive any contributions or make any expenditures before November 12, 2010, the day he declared his candidacy. Therefore, it appears that Daines did not cross the \$5,000 statutory candidate threshold before filing his Statement of Candidacy with the Commission. Based on the apparent lack of "testing the waters" or campaign activity before November 12, 2010, it appears that Daines timely filed his Statement of Candidacy in compliance with the Act.

Accordingly, we recommend that the Commission find no reason to believe that Steven Daines

b. Use of "soft money" by a candidate

Federal candidates and officeholders, or entities directly or indirectly established, financed, maintained or controlled by them, are restricted from soliciting, receiving, directing, transferring, or spending numfederal funds. See 2 U.S.C. § 441i(e)(1)(A). Although the complaint alleges that Daines received nonfederal funds through CSI's airing of "Ear Doctor," section 441i(e) only applies to federal candidates. As discussed above, see Part II.B.2.a., supra, Daines was not a federal candidate at the time that "Ear Doctor" aired.

Accordingly, we recommend that the Commission find no reason to believe that Steven Daines violated 2 U.S.C. § 441i(e)(1)(A) in connection with the "Ear Doctor" advertisement.

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III. <u>RECOMMENDATIONS</u>

- 1. Find no reason to believe that Steve Daines violated 2 U.S.C §§ 431(2), 432(e), 441b and 441i(e).
 - 2. Find no reason to believe that Common Sense Issues, Inc. violated 2. U.S.C. §§ 434(c), 434(f), and 441b.
 - 3. Approve the attached Factual and Legal Analyses.
 - 4. Approve the appropriate letters.
 - 5. Close the file.

Christopher Hughey Acting General Counsel

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<u>June 15, 2011</u> PATE

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